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PROJECT NO. 52373

REVIEW OF WHOLESALE	§	PUBLIC UTILITY COMMISSION
	§	
ELECTRIC MARKET DESIGN	§	OF TEXAS

**ENGIE NORTH AMERICA, INC.’S COMMENTS IN RESPONSE TO COMMISSION
STAFF’S QUESTIONS FOR COMMENT**

ENGIE North America, Inc. (“ENGIE”) files its comments in response to Public Utility Commission Staff’s (“Staff”) questions for comment, filed on October 25, 2021. Consistent with the request, this response is timely filed. ENGIE appreciates the opportunity to respond to the list of questions filed in Project 52373. ENGIE’s subsidiaries produce and sell electric energy in key U.S. markets, including the Electric Reliability Council of Texas (“ERCOT”) region, with an overall Texas investment plan totaling around \$2.8 Billion.

I. ENGIE NORTH AMERICA EXECUTIVE SUMMARY

ENGIE agrees that the Commission must undertake decisive actions in response to Winter Storm Uri to prepare customers and the ERCOT market for the risk of future severe weather risks. Winter Storm Uri was a major disaster for both Texans and the ERCOT market. Reliability of the ERCOT grid is a necessity for the citizens of Texas within the ERCOT grid. ENGIE supports the Commission’s actions to address the most immediate and critical elements of ERCOT grid reliability: weatherization and security of fuel supply. In addition to weatherization and security of fuel supply, it is appropriate to conduct a review of the existing ERCOT market design to identify changes that can enhance grid reliability. In doing so, the Commission should exercise great care to thoroughly and carefully investigate market design changes and to recognize the complexities and uncertainties associated with transitions to a new market design.

A. Use Great Caution When Considering a Load Serving Entity Obligation Market Design

The Commission poses a number of questions about how a load serving entity load obligation could be applied to ERCOT. This market model would not be a mere adjustment to the long-standing energy only market design. This would be a fundamental and profound change to the ERCOT electricity market and potentially a sharp departure from a market design based on minimally constrained free market principles. Necessity may dictate that changes to ensure greater reliability are needed, but great care must be exercised in that decision. Details will matter. ENGIE is pleased to offer our comments to this series of questions proposals and looks forward to engaging further as the Commission's exploration of potential changes continues.

B. Avoid Shifting Risks Back to Customers

The current ERCOT market was designed and implemented over more than two decades. One of the primary pillars of SB7 passed in 1999 was shifting the risk of building and operating generation from end-use customers to investors. Great care should be given to avoid shifting these risks back to customers. Electricity markets are complicated constructs. Unintended consequences are not uncommon (*i.e.* The California energy crisis). Hurried market designs have great risks of unintended consequences. Consumers are the most likely victims.

C. Develop Short-Term and Long-Term Action Plans

We advise the Commission and ERCOT to implement short-term actions now for 2021-2022, and establish a more in-depth, longer term market reform strategy and roadmap for 2023 and beyond.

First, the Commission should focus on the best steps to avoid the same problems that occurred last February and June. Specifically, focus on weatherization, natural gas supply, and adjustments to the existing Operating Reserve Demand Curve design and reforms to Ancillary Services market. This would address the immediate "operational resilience" issues. The

Commission has proposed the continued development of ERCOT's Ancillary Services markets, including Fast Frequency Response, ERCOT Contingency Reserve Service, and the creation of voltage & inertial response services. ENGIE supports these proposals.

D. Improve Pricing Mechanisms for Demand and Supply Solutions

The full retail competitive design of the ERCOT market is unique in North America and is more akin to other competitive products and services we buy. Clearly, the ERCOT market design has recently undervalued investment in dispatchable demand and supply options, so some changes will be needed to provide long-term incentives for investment in a more reliable grid. Redesigning the market pricing mechanisms to incent new investments in demand and supply solutions should be studied extensively including cost-benefit analysis before taking actions to ensure the final product is in the best interest of the consumers.

E. Recognize the Continuing Role of Renewable Energy

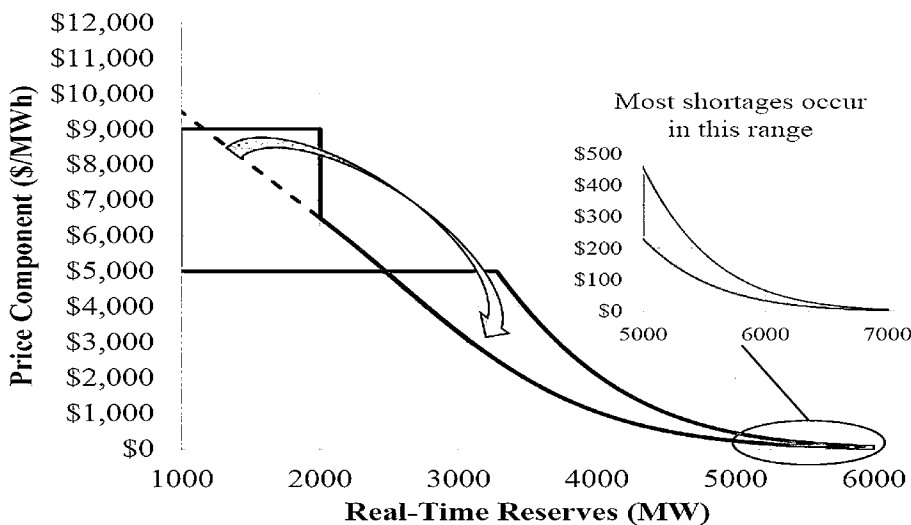
Texas consumers continue to support increased access to renewable power. Whatever implementation decisions the Commission makes need not adversely impact renewable investment, which is developed upon consumer demand. ENGIE does not believe that picking and choosing which Ancillary Services to charge to specific technology types is either appropriate or consistent with the requirements contained in SB3.

II. RESPONSES TO SPECIFIC QUESTIONS

1. The ORDC is currently a “blended curve” based on prior Commission action. Should the ORDC be separated into separate seasonal curves again? How would this change affect operational and financial outcomes?

Response

ENGIE has always maintained that the ORDC is a mechanism designed to supply “missing money” revenues to the market on a more regular and consistent manner. The ORDC should not function to only increase revenues in cases of an imminent emergency. ENGIE agrees with proposed changes to reduce the VOLL to \$4500/Mwh and to moving the MCL to 3000 MW. ENGIE believes the Commission should evaluate changing the curve in a manner suggested by Potomac Economics presented at the October 14, 2021, Commission workshop as shown below.



It is important to ensure the complete set of changes achieve the desired goal of further providing some of the “missing money” to incent short term operational issues and future investment.

2. What modifications could be made to existing ancillary services to better reflect seasonal variability?

Response:

First and foremost, the Commission should prioritize the implementation of Real-Time Co-Optimization. Secondly, the Commission should direct ERCOT to allow all technologies that can qualify for each Ancillary Service to have the ability to participate. For example, energy storage should be able to participate in On-Line and Off-Line Non-Spin as well as ECRS when implemented. ERCOT should have all available tools at their disposal to keep the ERCOT grid reliable before seeing emergency conditions.

3. Should ERCOT develop a discrete fuel-specific reliability product for winter? If so, please describe the attributes of such a product, including procurement and verification processes.

a. How long would it take to develop such a product?

b. Could a similar fuel-based capability be captured by modifying existing ancillary services in the ERCOT market?

Response:

ENGIE could support such a product if ERCOT deems it critical for the reliability of the grid in extreme conditions. This product should only be applied to include “at risk” generation that may be considering leaving the market. These resources should be kept out of the market and only used in the event of an emergency condition. The procurement of this product should be similar to Black Start Service. The Commission and ERCOT should build on the already implemented process used for Reliability Must Run, building in additional operating requirements as necessary.

4. Are there alternatives to a load serving entity (LSE) Obligation that could be used to impose a firming requirement on all generation resources in ERCOT?

See below.

- 5. Are there alternatives to an LSE Obligation that could address the concerns raised about the stakeholder proposals submitted to the Commission?**

See below.

Load Serving Entity (LSE) Obligation

6. How can an LSE Obligation be designed to protect against the abuse of market power in the wholesale and retail markets?

a. Will an LSE Obligation negatively impact customer choice for consumers in the competitive retail electric market in ERCOT? Can protective measures be put in place to avoid a negative impact on customer choice? If so, please specify what measures.

b. How can market power be effectively monitored in a market where owners of power generation also own REPs that serve a large portion of ERCOT's retail customers?

c. What is the impact on self-supplying large industrial consumers who will have to comply with the LSE Obligation and will it impact their decision to site in Texas?

d. What is the impact of an LSE Obligation on load-serving entities that do not offer retail choice, such as municipally owned utilities or electric cooperatives?

e. Can market power be monitored in the bilateral market if an LSE Obligation is implemented in ERCOT? Can protective measures be put in place to ensure that market power is effectively monitored in ERCOT with an LSE Obligation? If so, please specify what measures.

f. Should the LSE Obligation include a "must offer" provision? If so, how should it be structured?

7. How should an LSE Obligation be accurately and fairly determined for each LSE? What is the appropriate segment of time for each obligation? (Months? Weeks? 24 hour operating day? 12 hour segments? Hourly?)

8. Can the reliability needs of the system be effectively determined with an LSE Obligation? How should objective standards around the value of the reliability-providing assets be set on an on-going basis?

a. Are there methods of accreditation that can be implemented less administrative burden or need for oversight, while still allowing for all resources to be properly accredited?

b. How can winter weather standards be integrated into the accreditation system?

9. How can the LSE Obligation be designed to ensure demand response resources can participate fully and at all points in time?

10. How will an LSE Obligation incent investment in existing and new dispatchable generation?

11. How will an LSE Obligation help ERCOT ensure operational reliability in the real-time market (e.g., during cold weather events or periods of time with higher than expected electricity demand and/or lower than expected generation output of all types)?

12. What mechanism will ensure those receiving revenue streams for the reliability services perform adequately?

13. What is the estimated market and consumer cost impact if an LSE obligation is implemented in ERCOT? Describe the methodology used to reach the dollar amount.

14. How long will the LSE Obligation plan take to implement?

15. If the Commission adopts an LSE Obligation, what assurances are necessary to ensure transparency and promote stability within retail and wholesale electric markets?

16. Are there relevant “lessons learned” from the implementation of an LSE Obligation in the SPP, CAL-ISO, MISO, and Australian markets that could be applied in ERCOT?

Response:

Rather than address each individual question, ENGIE will supply an overall response on the LSE Obligation.

ENGIE continues to have concerns about the implementation of an LSE Obligation. The potential for unintended consequences and turbulence to reliability, investment and consumer benefit are real. These risks arise from the need to thoughtfully and carefully understand price transparency, price discovery, capacity true-up, and market power issues. Without knowing and analyzing the complete details of such a program, it is difficult for ENGIE to judge whether it is a viable option in the best interest of the overall market from a cost and operational reliability prospective. An LSE obligation design is a major departure from the energy only market that ERCOT has established. To develop a LSE obligation construct, the Commission will be required to create the requirements that are currently used in a capacity market design. That is because it is necessary to ensure the product that is procured bilaterally qualifies to meet the obligation. This is no simple matter. ENGIE believes this cannot be achieved on a short-term implementation timeline. Rather, this is a construct that will need to span all parts of the ERCOT wholesale market. ENGIE further believes this process should be thoughtfully, expertly, and carefully vetted through a PUCT project rather than through comments in this instant filing.

Across the organized wholesale markets in the US, the problem of solving for “missing money” and meeting supply / capacity obligations have been vexing. The Commission should be prepared for what is ahead.

Among the critical and careful steps is to set the level of overall ERCOT obligation. Since this is a design to provide a level of planning reserves to meet a required level of reserves, ERCOT will need to perform a loss of load probability study so the Commission can decide what that level would be to necessarily ensure the reliability goals are met.

Next, the manner for settlement must be established, and experience in other markets demonstrates the best approach is not always straightforward. ENGIE has experience in other markets where these mechanisms have been deployed. In PJM, the first construct was a month-ahead settled market, where LSE's were simply price takers. However, to hedge forward price risk exposure, LSE's could/would procure capacity bilaterally, over-the-counter, with generators that had the opposite price risk exposure. It was a very liquid market and worked well for buyers and sellers. Then the construct evolved to a longer-term auction to provide longer-term certainty on capacity revenue streams. This provided visibility into costs three years out, without a secondary market dictating forward prices. There were some growing pains that came with this change. Ultimately, PJM went to a fully centralized capacity market. The Commission should be mindful of where this path led for PJM.

MISO has a one year forward capacity auction model. NYISO capacity market is most commonly referred to as bilateral, as forward auctions clear only up to 6 months in advance; resulting in market participants hedging forward price risk exposure bilaterally, over-the-counter, more so than through ISO-administered auctions. These auctions are mainly used to true up volumes by market participants, as the delivery period is approached.

The examples cited above demonstrate there are many ways to implement an LSE Obligation. None are easy or without complications. The development of such a process for ERCOT needs to be carefully vetted and implemented, understanding the cost and benefit to the overall market.

ENGIE believes the Commission needs to open a project, allocating sufficient time to see the effects of the implementation of the shorter-term actions before deciding on an altogether different market construct. It may emerge that the other mechanisms that were discussed at the

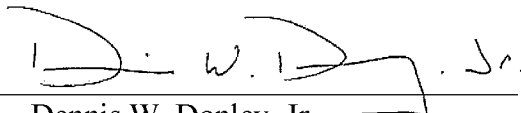
Commission market design workshops this year would be better to meet the overall needs for the market and reliability.

III. CONCLUSION

ENGIE requests that the Commission consider these comments in adopting recommendations aimed at improving the reliability of the ERCOT grid. We urge the Commission to move forward with great care before making fundamental and substantial changes to the ERCOT market design. We look forward to working together to implement improvements to the ERCOT market that will provide greater reliability and reflect sound market design principles.

Respectfully submitted,

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